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SUBJECT: SCANDAL AT THE CASABLANCA STOCK EXCHANGE

11. (SBU) Summary: The Morocco Council for the Code of Ethics in Securities Markets, (CDVM) moved decisively the week of 17 November to address a simmering scandal at the Casablanca Stock Exchange (CSE), recommending to the Minister of Finance that the Exchange,s entire leadership be dismissed for its "blatant failure to monitor the unlawful distribution of insider information." The charges stem from the fact that the Exchange,s new electronic trading system erroneously made available to brokers confidential information on pending trades. The CDVM report, however, exonerated the brokerages that received the information, and also concluded that the scandal played no role in the Exchange,s heavy financial losses in mid-September. Two of the three executives singled out by the Council did not wait for Finance Minister Mezouar's decision, and have already resigned. Named to head the exchange on an interim basis is respected veteran Jawad Namri. End Summary.

The V-900 Affair

12. (SBU) At the center of the scandal is Bourse Maroc, a Moroccan financial analysis firm that disseminates market information to local and international brokerages and financial services firms. As a result of an apparent computer glitch on CSE,s V-900 electronic trading system, the information it transmitted since March included confidential details of pending trades. Clients who received the Bourse Maroc data stream thus knew in advance who was going to buy and sell stocks, in what quantities, and at what price. According to CDVM, Bourse Maroc used this confidential information to recruit hundreds of clients with promises of substantial financial gains. Ironically, Bourse Maroc was recently cited by a leading economic journal as an example of how far the Moroccan financial market has come with respect to its maturity.

14. (SBU) The President of CSE claims not to have been aware of this supposed computer glitch, until informed by the Professional Association of Brokerage Firms on 17 September. The Exchange then attempted to quietly resolve the problem, but information about it swiftly leaked throughout the Casablanca and Rabat financial communities, prompting an outcry that led to the CDVM investigation.

15. (SBU) In its report, the full text of which has not yet been released to the public, CDVM cleared the brokerage recipients of accusations that they used this data to manipulate the Exchange, and also concluded that the data flow was not at the root of the Exchange,s mid-September financial losses. The Council judged, however, that stiff sanctions against Exchange administrators were appropriate, given their lack of oversight of the new trading system and their attempt in late September to quietly clean it up. As a result, it demanded the dismissal of the Exchange,s top

three executives: two did not wait on the Minister of Finance,s disposition of the recommendation, but instead resigned immediately. The fate of the Exchange's third ranking official, Director General Hynd Bouhia, remains uncertain. A well placed contact at the Exchange told us that Bouhia, who is pregnant, had taken an early maternity leave and is unlikley to return. (Note: Bouhia was recently named the 29th most powerful woman in the world by Forbes Magazine. End Note)

Hail to the CDVM

15. (SBU) Many in the financial community have welcomed CDVM's actions as a "breath of fresh air". This is the first time that CDVM has reacted quickly and authoritatively, a seasoned foreign observer of the market noted. This view is not unanimous, however. Some in the press have questioned CDVM,s decision to clear the brokerages that received the information, and pointed to a possible conflict of interest between one of those companies, CFG Securities, and the CDVM itself.

16. (SBU) Comment: This is likely only the first chapter of the Casablanca Exchange Scandal, and further details will undoubtedly emerge in coming weeks and months. For now, the incident demonstrates the increasing aggressiveness of CDVM in policing the Exchange, and implementing tough sanctions against those it concludes have misused or neglected their power. That the hitherto &toothless8 tiger has been able to do this reflects the support Minister of Finance Mezouar has extended to it. Whether the penalties were &too harsh,8 as the President of the Moroccan Federation of Business told the Consul General in a recent meeting, or too limited, as some in the press have maintained, the CDVM is making its presence felt. This will in the long run be positive for the Exchange,s credibility, which has suffered serious damage in this latest episode.

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